FARMERS' NEWSLETTER
Cotton

May 80/C-12

You've probably firmed up your cotton planting decisions by now so it's not too early to start planning your marketing strategy for 1980. To help, here's a look at how the cotton situation is shaping up. Also, we'll review USDA's latest farm program changes.

More cotton acreage this year? Yes, if farmers' plans as of April 1 are carried out. Cotton producers indicated plans to seed 14.8 million acres this spring, up from 14 million in 1979. That would be the most cotton acreage since 1962. But even so, production may decline since a repeat of last season's record yield is unlikely.

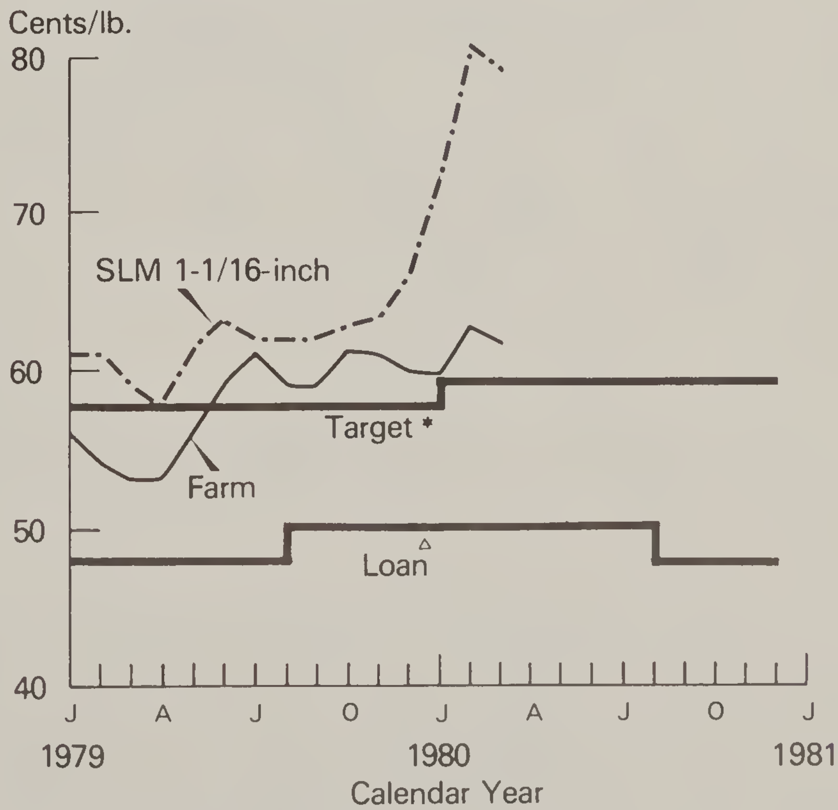
If yields are near normal, around a bale per harvested acre, production would be in the range of 13.5 to 14 million bales. But cotton yields have varied widely from year to year, and it's not unusual for them to be as much as 10 percent above or below the long-term average. We think the odds are about 2 out of 3 that production will be between 12.5 and 15 million bales. Although this range is wide, it reflects recent experience and points out the uncertainty you face in planning for next season.

Demand To Weaken?

Domestic cotton mill use in 1980/81 will depend heavily on general economic activity, the level of textile imports, and the price of cotton relative to manmade fibers. The key factor will be how the economy performs this year. If there's only a mild recession, cotton use in 1980/81 could drop slightly from this season's estimated 6.5 million bales. If the business slowdown is more severe than currently expected, mill use would, of course, decline much more.

Cotton exports will likely decline from this season's unusually high level although it's difficult now to assess the prospects. They hinge on foreign cotton production and demand as well as domestic developments. While foreign cotton stocks will likely be fairly low this summer, current cotton prices may encourage more foreign production and hold down demand.

COTTON PRICES STAY STRONG



* Target price is for calendar year.
△ SLM 1-1/16 inch at average location; for year beginning August 1.

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The next cotton newsletter is scheduled for early August.

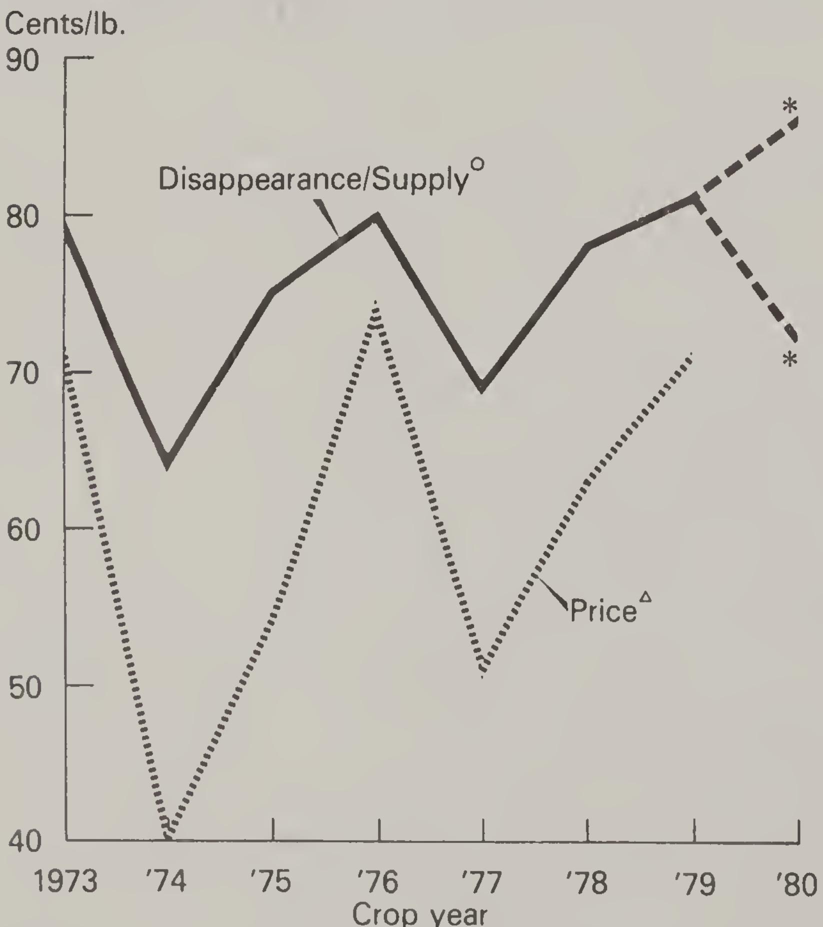
In summary, it looks like 1980/81 could be a year when U.S. production and disappearance are in fairly close balance, with the odds now favoring a slight increase in stocks.

Price Uncertainties Abound

A good indicator of cotton price movement is the ratio of U.S. disappearance to supply. The potential exists for wide swings in this ratio for 1980/81. For example, the ratio could reach a modern-day high if a combination of strong export demand--close to this season's level--and below-normal U.S. cotton yields occurs. These developments would boost prices from the level received during the October-March period.

On the other hand, above-average yields and weak export demand would cause a considerable drop in the ratio and put strong downward pressure on cotton prices.

ECONOMIC AND WEATHER UNCERTAINTIES CLOUD OUTLOOK



△Average price of SLM 1-1/16" cotton, October-March.
°Mill use + exports divided by beginning stocks + production; estimated for 1979/80.
*Likely range based on April planting intentions and alternative world cotton production and consumption levels. Chances are 2 out of 3 that the actual ratio will fall within this range.

To protect against such price uncertainty, many of you have been forward contracting some new crop. By the end of March, production from nearly 20 percent of planned 1980 acreage had been sold ahead, about double the year-earlier pace.

Current Season in Perspective

Use has been the heaviest in two decades, but this has been mostly offset by a sharp production increase. Based on the final ginnings report, production was about 14.6 million bales--the final crop estimate is due this month. Average yield was estimated in January at a record 551 pounds per harvested acre.

Once again, exports are the bright spot in the U.S. cotton demand picture. They will push this season's cotton disappearance to about 15 million bales, up from last season's 12-1/2 million. Export shipments are now expected to total 8-1/2 million bales by August 1 versus 6.2 million last season. By mid-April, 6-1/2 million bales had been shipped, with another 3.2 million sold for delivery this season. Some of these new sales will not be shipped until next season.

Increased demand by China, low foreign cotton stocks, competitive U.S. prices, and Russia's reluctance to market its cotton are all behind the phenomenal rise. China had taken nearly 1.6 million bales of our cotton through the first 8-1/2 months of this season, almost 2-1/2 times last season's total, and they've bought an additional 700,000 bales for delivery before August 1.

In contrast, domestic mill use of cotton is increasing only slightly from 6.4 to 6.5 million bales. Strong demand for denim and corduroy fabric, coupled with increasing textile exports, has maintained cotton mill use in the face of weak economic activity. The decline in value of the U.S. dollar

STOCKS DOWN SLIGHTLY

	1978/79	1979/80 Projected	Range[1]
	Million 480-lb. bales		
Beginning stocks	5.3	4.0	
Production	10.9	14.6	
Total supply[2]	16.2	18.6	
Mill use	6.4	6.5	±0.1
Exports	6.2	8.5	±0.5
Disappearance[2]	12.5	15.0	±0.5
Ending stocks[2]	4.0	3.7	±0.5
	Cents per pound		
Farm price	58.4	[3]61.5	
Loan rate[4]	48.0	50.2	

[1] Chances are about 2 out of 3 that the outcome will fall within the indicated range. [2] May not add due to rounding. [3] Average: August-December, 1979. [4] For SLM 1-1/16" cotton.

against foreign currencies, which makes our goods less expensive abroad, is partly responsible for the improved textile trade picture.

Cotton Stocks Tighter

U.S. cotton stocks are now expected to total about 3.7 million bales on August 1, down from 4 million at the start of the season. But about 1.5 million bales of this carryover could be committed for export, so "free" stocks are much tighter than the total would suggest. This situation will likely persist until the 1980-crop harvest gets into full swing next fall.

Cotton Price Strong, Returns Improved

The price of SLM 1-1/16-inch cotton during October-March, when the bulk of the crop is sold, averaged 71 cents a pound--8 cents above the previous season--in response to strong export demand. Mid-April spot prices were around 82 cents a pound, 23 cents above a year earlier. Tight supplies of good-quality cotton and a strong speculative element in the market have also contributed to the price strength.

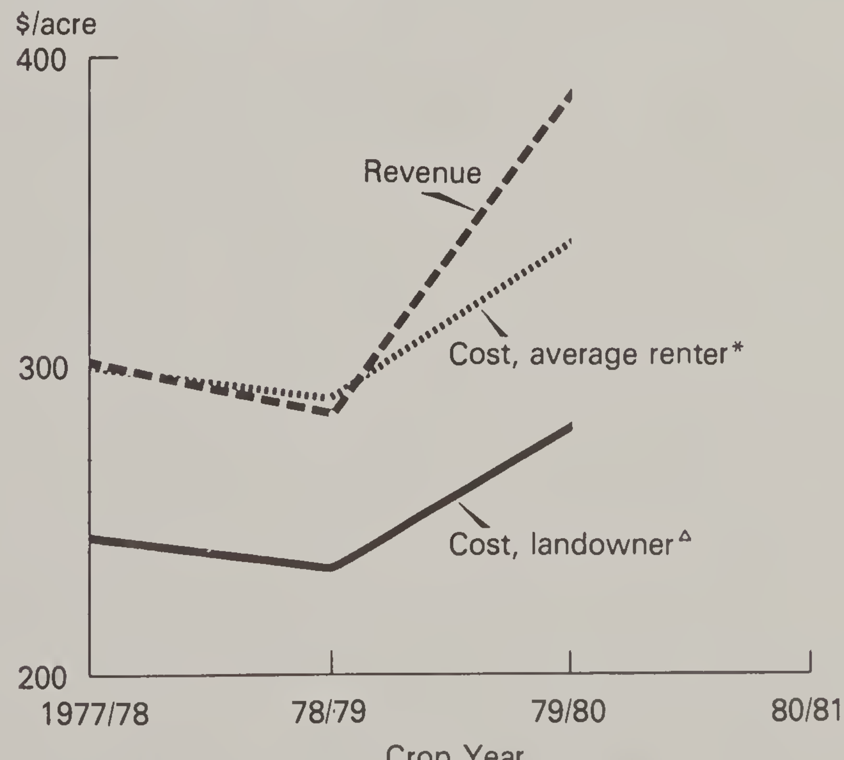
Note that new crop futures prices (December 1980 contract) have remained virtually unchanged since mid-December, at around 74 cents a pound, while spot prices have jumped about 15 cents. This divergence stems from trade expectations of another large U.S. cotton harvest and from concern over the extent and severity of the expected economic recession in 1980.

Average farm prices this season have been running about 3 cents per pound above 1978/79's 58.1-cent average. These relatively strong prices along with record yields boosted the estimated gross revenue (including cottonseed) from an acre of cotton to $388 for 1979, up from $285 in 1978 and $302 in 1977. Net returns improved substantially even though total production costs increased about 17 percent.

Target Prices Raised

The cotton target price for 1980 will be 58.4 cents a pound, up from 57.7 cents for 1979. The record yield per acre last fall lowered average costs per pound and held down the target price adjustment. Had the national average yield been a bale per harvested

COTTON REVENUES CLIMB FASTER THAN COST



*Sum of variable, machinery ownership, and overhead costs: based on tenure arrangements in 1974. △No land charge.

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acre, the target price for 1980 would have been 61 cents a pound.

Farm prices in the first 3 months of 1980 averaged slightly above the 58.4-cent target price. As you know, the cotton target price is compared with a calendar year farm price to see if deficiency payments will be made.

If you're also growing wheat or feed grains, note that target prices were boosted in March (the Agricultural Adjustment Act of 1980). Here are the details:

- Wheat: The 1980 target price is \$3.63 a bushel if you stay within your normal crop acreage (NCA). If you plant more than that, you'll be eligible only for \$3.08 per bushel, the target given by the formula in the 1977 Act.

- Feed grains: If you stay within your NCA, 1980 target prices are \$2.35 a bushel for corn and \$2.50 for sorghum. Otherwise, target prices are \$2.05 for corn and \$2.45 for sorghum.

- Disaster payments: This program extends through the 1980 crop year for producers of wheat, feed grains, upland cotton, and rice. If you plant within your NCA, you'll be eligible for disaster payments on wheat and feed grains based on the higher target levels. However, combined disaster payments under all programs will be limited to \$100,000 per person.

Law Triggers Greater Import Quota

A special import quota established March 28, raises the amount of upland cotton that can be imported by nearly 510,000 bales. The special quota--representing 21 days' domestic mill consumption--is in effect for 90 days, and is in addition to the existing upland cotton quota of 30,000 bales.

This action came after higher cotton prices during February triggered a provision of the Food and Agriculture Act of 1977 requiring the President to establish a special import quota whenever the average spot price for SLM 1-1/16-inch cotton for 1 month exceeds 130 percent of the average price for the preceding 36 months. The February average spot price was 80.66 cents per pound, 134 percent above the average of the preceding 36 months.

This increased import quota will have little or no impact on domestic cotton prices, due to the limited supply and high prices of foreign cotton. Imports may total no more than 10,000 bales in any event.